What's Inflation?

Here's how the prices paid by consumer households in Canada have risen in each of the last 20 years.

Notice how large the increases have been in the last five years compared with the previous 15.

In 1969 alone, prices rose by 4½ per cent — the largest yearly increase since the Korean War in 1951.

Prices paid by consumers today are 20 per cent higher than they were only five years ago.

Year after year, as prices keep going up, each dollar we spend buys less and less.

That's inflation, and it must not be allowed to continue. But getting it under control presents serious problems too. That's what this pamphlet is about.

How Did It Start?

In the mid-1960s price increases began to get larger and more numerous in Canada.

What happened was that the total amount of money being spent in the economy was allowed to rise too fast for production and employment to keep up.

Business began to spend more heavily on new buildings and equipment, consumers on new houses and automobiles, governments on public services and social benefits. In the United States, military spending increased sharply.

The result? A seller's market at home and rising prices abroad, both pushing up the price level in Canada. Higher profits leading to stepped-up wage and salary demands. Price increases to cover the resulting pay increases. Higher taxes, rents and interest rates leading to more price increases. Still higher wage and salary demands. Yet more price increases.

And the race, once started, has been going on ever since.

Who Gains? Who Loses?

Trying to keep ahead of inflation is like playing leap-frog on a treadmill. Who's in front keeps changing, but the game doesn't really get anywhere.

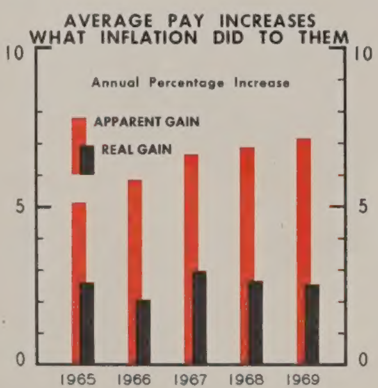
In some years — 1967 for example — wages and salaries increased at the expense of profits. In other years, like 1968, it was the other way round.

Pay increases have become larger year by year, but so have increases in the cost of living.

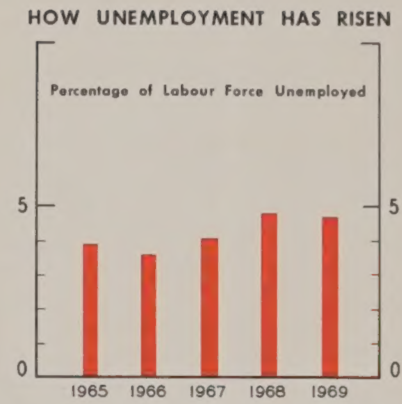
The level of well-being of most Canadians has continued to improve, of course, in line with the average annual increase in production per head.

But for Canadians as a whole, five years of inflation have gained us nothing that we couldn't have had with reasonably stable prices.

Here's what has happened over the last five years to the average employee's weekly pay when allowance is made for the rise in prices.



And here's what has happened to the rate of unemployment.



Although inflation has worsened, the real income of wage and salary earners isn't rising any faster than it was five years ago, and unemployment is distinctly higher.

While most Canadians are no better off as a result of the inflation, some are much worse off.

Perhaps this is because they were not quick enough to see what was happening to prices. Or because they are powerless to do anything about it.

Retired people living on fixed incomes are just one example. Anyone whose pay increases haven't kept up with the rise in prices is worse off as a result. Others are being cheated by inflation because the buying power of their savings is being rapidly eroded.

Arrangements could be made, of course, under which pensions, wages and other money payments would rise automatically in step with the cost of living. But this would make the process of inflation much more explosive than it is already.

Letting inflation continue would be both unfair and a threat to our future prosperity. Canadian jobs and payrolls depend on our ability to sell goods in markets around the world and meet import competition at home. Letting our costs and prices rise faster than those of our competitors would be a dangerously short-sighted way to run our affairs.

What's Being Done About It?

Tough measures to restrict spending by individuals, business and governments have been in force for some time both in Canada and in the United States. Now the impact of tight money, austerity budgets and higher taxes is being felt.

If applied long enough and severely enough these measures alone will eventually break the inflationary spiral.

In the meantime, however, it will be difficult to avoid temporary but painful side-effects — higher unemployment and a loss of production affecting every region of Canada.

There *is* a way of fighting inflation that can save jobs and production.

That's through co-operative action on the part of all the main groups in the community to help scale down more quickly the size of increases in prices, wages, salaries and other forms of income.

An effective program of this kind in the months immediately ahead will reduce the need to fight inflation with other, harsher measures over an extended period of time. In this way jobs and output can be saved as inflation is brought under control.

By acting responsibly *now* to slow down the inflation we can have higher employment and be better off next winter and spring.

On February 9 and 10, at a National Conference on Price Stability, leaders of business, agriculture and the professions approved the principle that price increases during 1970 should be kept clearly less than cost increases.

The application of this principle to all private and public activities was endorsed by the Heads of Governments at the Federal-Provincial Conference on February 16 and 17.

A call has since gone out to all business firms and other commercial establishments in the country to apply this basic pricing principle throughout 1970.

Price and cost increases in a variety of industries will be reviewed by the Prices and Incomes Commission to make sure that this principle is being observed.

How Can You Help?

Be a "tough customer". Be selective in your shopping. If you find the price of something you buy regularly has gone up, ask for an explanation. If you aren't satisfied, write us.

At today's interest rates you can earn much more on your savings and it costs you a great deal to borrow. Think carefully before you sign up to pay these high current interest rates for months or years ahead.

Don't count on prices continuing to rise so rapidly in the future. And don't count on future pay increases as large as you may have been getting recently. But remember, although your pay increase is smaller, your wage or salary will go farther as prices rise less rapidly.

Support common sense and realism about the size of pay increases the economy can deliver without inflation. Price increases won't become much smaller unless increases in pay and in other incomes become much smaller too.

There's too much at stake in the fight against inflation to leave it all to someone else.

With your help, we can move decisively to break the inflationary spiral in the months ahead — and save jobs in the process.

PRICES AND INCOMES COMMISSION
P.O. BOX A, OTTAWA 2

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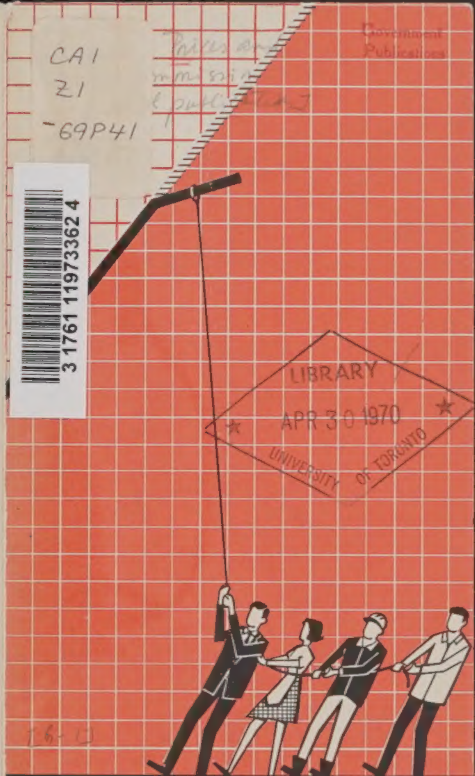

FIGHT INFLATION

SAVE JOBS